

TANZANIA

Stability and African Strength

Jakaya Kikwete's Tanzania: High hopes and performances

Africa has received an elevated level of global attention over the past couple of years, and not without reason. The promise of a prospering continent has been more vibrant than ever, and strong economic growth has become an attainable destination for many democratically governed African nations. In most cases, these positive developments have been the result of one major factor: stability. Even though hardships and conflicts persist in various parts of Africa, the quest for creating peaceful, solid solutions in regions such as Sudan, Somalia, Ethiopia and Zimbabwe has put the focus on a brighter future for the continent's people.

The most important change that has manifested itself from perhaps a decade ago is that African countries have tried to become far less reliant on international aid than before, moving steadfastly towards self-reliance, with transparent, just leadership guiding countries into their full potentials. It has been witnessed in South Africa since the fall of Apartheid, it can be seen in Nigeria in the campaign against corruption, and it is evident in emerging East African markets attracting investor confidence from Asian, European, and US interests. More significantly, to gain a wider understanding of which policies are most effective, a new generation of African leaders is sharing insights and experiences, advancing the impact of development communities (SADC) and economic co-operations (EAC and COMESA), and striving to alleviate poverty across the continent.



President Jakaya Kikwete

One of the most prominent examples of this new African vigor is Tanzania. Since taking office in December 2005, its President Jakaya Kikwete has turned around many of the nation's issues and has firmly placed Tanzania on a path of stability and growth. For this reason he is seen as an important force within African politics, as the solutions found in Tanzania

could very well be applied to countries of a similar situation; a unity of multi-tribal citizens, a wealth of natural resources, and the opportunity of turning subsistence farming into a major agriculture export industry. These are only a few elements in a country as diverse and at times complex as Tanzania which pose many challenges, but it has nevertheless had the good fortune of being guided by visionary leaders since independence in 1961, starting with Julius Nyerere, whose governing philosophy and political views of justice and equality are a principle inspiration for Kikwete.

"We are a nation of 120 tribes, of different religions, different races and so on," explains President Kikwete. "This is one of those big challenges. When you look around you see many African nations suffering sadly from internal strife and difficulties due to inter-tribal struggles or differences in affiliations. Thank God we have not had that and so far so good, we have held the country together well." Forming a national union with the predominantly Islamic island of Zanzibar in 1964 was one of the most significant achievements in African politics. Thirteen political parties with various agendas make up Tanzania's political system, yet it manages to maintain a unified, open environment.

Having witnessed the exercise of leadership by his grandfather as a local chief and father as a District Commissioner, Jakaya Kikwete grew up seeing how many areas of the country lived and earned their livelihoods. As a student leader at Dar es Salaam University, he spearheaded efforts to fight for student's rights, welfare, and anti-apartheid politics. Graduating with an economics degree in 1975, he opted to serve as an executive functionary at grassroots level in rural regions of Tanzania before sharpening his leadership acumen in the military, from which he retired as a lieutenant colonel to become a full time politician. In 1994, at the age of 44, he became one of the youngest Finance Ministers in the history of Tanzania, establishing discipline in public finance management and accountability, as well as laying the groundwork for the Tanzania Revenue Authority. In December 1995 President Benjamin Mkapa appointed Kikwete to become the country's Minister of Foreign Affairs and International Co-operation, a post he would hold for 10 years before becoming President himself.

His tenure as Foreign Minister enabled Kikwete to see how many other developing nations across the world were handling their evolution, especially in agriculture-dominated countries such as Brazil and Vietnam. "Here is a country," Kikwete says about Vietnam, "that started their reforms in 1986 just like us, but when I visited I was amazed by the amount of progress they had made in such little time. What was behind their success? I spoke to the Minister of Agriculture and he said it was all down to water. There is no agriculture without effective irrigation. The second factor is the use of extremely high yielding seeds and varieties of crops." Two more important aspects were the right use of insecticides as well as fertilizers, of which Tanzanian farmers are only using a minimal 8 pounds per acre. From Indonesia Kikwete saw another important model, the skilled farmer. "This is vital in order for our farmers to maximize and grow their crops intelligently. Many of the countries I have visited have all inspired me, but what I have noticed is the gap in the level of development between our contemporaries and ourselves. But ultimately I do not see why if they have achieved these things we cannot."

Through good governance and the successful implementation of development programs, President Kikwete has already achieved higher returns as well as praise from the international community. President George W. Bush commended Kikwete for what he described a "a promising start" of his five-year term in office, expected to stretch to 2010, expressing his satisfaction on Jakaya Kikwete's commitment to improving the country and Africa as a whole, especially through its cooperation with the United Nations Security Council. On his visit to the US last year, President Kikwete held talks with US Secretary of State Condoleezza Rice, who expressed confidence in his leadership. Supporting this is the signing of a Millennium Challenge Corporation (MCC) agreement between the two nations to boost Tanzania's economic growth,

placing it on the threshold of program assistance in which the country will receive \$700 million. Tanzania will utilize the funds to further implement economic, social, and political policies to hasten growth in all sectors.

Economic gems

"Our main preoccupation now is dealing with the great and varying levels of poverty," says Kikwete. Overall, Tanzania is an extremely poor country, with the economy depending heavily on agriculture. It accounts for almost half of GDP, provides 85 percent of exports, and employs 80 percent of the work force, but is very sensitive to climatic conditions. GDP per capita has grown, from \$180 10-15 years ago to \$370 now, and even though it is still very low, certain interventions have maintained progress where once GDP growth was low, inflation was high, and foreign exchange reserves minimal. "Indeed, one of the biggest challenges to date has been the continued efforts involved in getting the macroeconomic framework back on track. Growth was 6 percent in 2006, even though it suffered a slight drop, mainly attributable to the droughts of the past 2 years. Apart from agriculture production we also rely on rain for hydroelectric energy, and because our two largest dams dried up we lost almost 380 Mega Watts of power. But we will pull back again as the rains have been good, the weather conditions favorable, and GDP growth will bounce back once more."

Most remarkably Tanzania's inflation, seen as the biggest contributor to high poverty levels, has been cut from 36 percent in the mid 90's to 4 percent last year. Once more the drought together with high food prices and the increased cost of oil raised inflation a touch but all signs indicate that it should be stable at 5 percent by the end of the year. Foreign exchange reserves have also been stable at \$2 million, an encouraging sum for an economy of Tanzania's ratio, but Kikwete has put the focus on bolstering this sum with an export-led economy through manufacturing, trade and agriculture, as well as with mining and tourism. "We have made gains and now we need to make sure there are no slippages by maintaining sound financial discipline."

Overseeing the country's economic climb is the Central Bank of Tanzania. Applying 22 years of experience working with the International Monetary Fund, Governor Daudi Ballali's strong knowledge of the global economy and his Western approach to monetary policy and financial management has recently won the World Bank's praise, referring to Tanzania as the "showpiece of Africa." Having witnessed many of the reforms initiated by African nations in the late nineties, Ballali is fully aware of the problems faced by countries working

on their recovery, and a primary concern in this field is the creation of job opportunities. “The only way Tanzania can combat unemployment is to attract investment,” says the Central Bank’s governor. “This is not an economy which was at full employment that was subsequently reduced. This is an economy which needs to expand its capacity in order to absorb the current levels unemployment. So while many other countries have a heavy focus on open international markets for export, this is secondary to us – our main goal is to invest, invest, and invest.”

Fortunately for Tanzania it offers tremendous opportunities for investors as it is endowed with an abundance of natural resources. Tanzania today is among the countries which host the most vibrant exploration and mining scene in Africa. From gold to natural gas and iron ore to precious gemstones, including the famous blue Tanzanite stones, the country’s earth still has a wealth of minerals to uncover. The value of mineral exports increased from \$54 million in 1996 to \$185 million in 2000, and Tanzania is set to become the continent’s third largest gold producer after South Africa and Ghana. Natural resources form a big part of the Mini Tiger 2020 plan, a vision inspired by similar Asian strategies to fast track the realization of investment targets from local and external sources, especially through the construction of Special Economic Zones where raw materials are prepared for export in value-added processes.

“We are in fact above other oil producing countries when looking at levels of investment in proportion to our GDP” reveals Governor Ballali, referring to various ongoing projects on the country’s coast, including the Songo Songo field gas-to-electricity project as well as a proposed pipeline to Kenya. “All of this will help us export our products more effectively and become less dependent on donor aid.” Tanzania has nevertheless enjoyed good relations with donor organizations who fully support its growth and positive change. Debt cancellation by the G8 in 2005 was a major milestone which enabled the government to focus its funds on poverty alleviation and sorely needed infrastructure investment. “A recent Japanese grant of \$81 million towards new roads and anti-poverty initiatives shows the world’s commitment to the Tanzanian people and their belief in a positive change being made in this country.”

A private eye on public vision

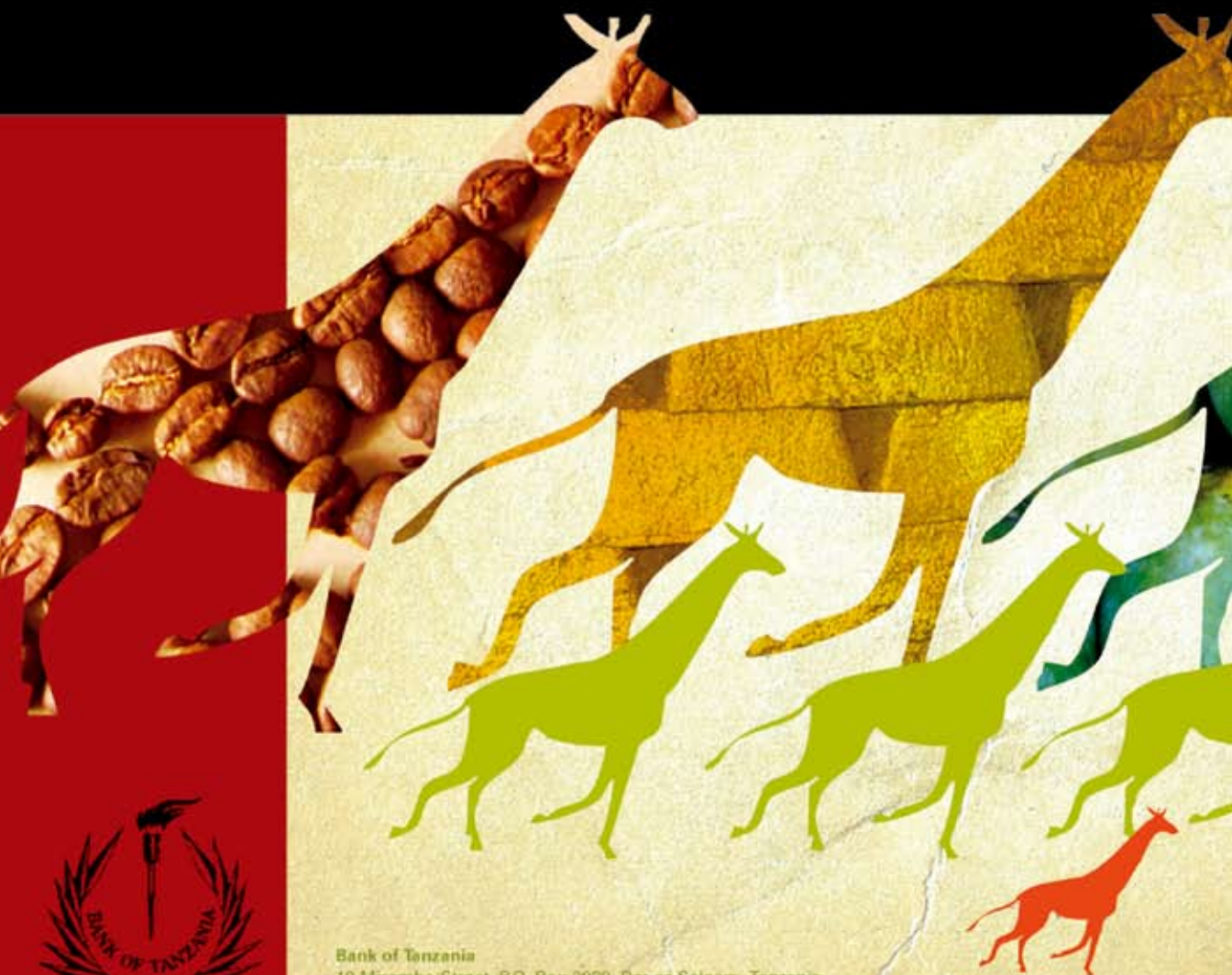
In all efforts to make Tanzania a preferred destination for foreign direct investment and providing a conducive environment in which the private sector can grow, addressing his people’s needs still remains at the heart of

President Jakaya Kikwete’s governance. “We are focusing on two sets of issues here,” explains Kikwete. “The first is making sure that the people are getting social and economic services that are of an adequate and high standard and quality. We are looking at health, education, infrastructure, electricity, and water. The other is looking at increasing people’s incomes.” He realizes that quality education is the pillar of national development, for it is through education that the nation obtains skilled manpower to serve in various sectors of the economy.

Great strides have been made to provide schooling for Tanzania’s young, a great deal of whom live in remote areas of this vast nation. “At primary level we are now at 96 percent attendance for all children of school-going age,” the President says, adding that at secondary levels attendance was too low, and his government struggled in the first year to bring it up to 44 percent. “We have worked hard, by increasing the number of teachers and schools. On March 15th I got the report that we will have reached 89 percent by the end of this school year, as you can imagine this is of great consolation to me. We need to hire about 6,000 teachers, which will increase our wage bill but we believe it is money well spent.” Rather than being a key player in education, the government is now changing its role to that of a facilitator, providing the private sector with an opportunity to increase its investment in the field. This directly involves the communities, as the program to create a school in every ward, or cluster of villages, saw division of labor and responsibility distributed between the different villages. “They all got together and by selling their cattle and putting their kitties together they were able to contribute to the building of their own local schools. It creates accessibility to education for all.” Kikwete adds that the same principal is now being applied to health services, in order for every ward to have its own medical facilities.

As in any section of social development, some initial sacrifice has to take place in order to sustain the future. Nowhere is this more evident than in agriculture, which needs to make a complete turnaround in order to support all parties concerned. The Agriculture Sector Development Program (ASDP) is a 7-year, \$2.9 billion program aimed at modernizing agriculture, livestock keeping and fishing to increase production levels. The greatest challenge is not in providing the technology, but in modernizing traditional practices of nomadic livestock keepers, as Kikwete points out. “Last year we had an issue where we had over 350,000 herds of cattle in the wetlands, which act as a sieve for all the contributing rivers and it was dry due to these herds. We made the difficult decision of moving them out, one that had to be made for the good of the people in general. We must look after our environment; if we just take a populist approach to everything we would just end up with a desert and then what would they do for their herds and survival? This is part of our green revolution, and if we succeed our people can produce more, live better, increase their incomes and improve their standards of living.”

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Investment in Tanzania Wins Global Confidence

Through President Jakaya Kikwete's focused efforts in strengthening Tanzania's business environment, the World Bank rated the country as one of the top 10 to do business with and invest in for 2007. "But we cannot rest on our laurels," urges Kikwete, who sees increased private sector activity as the key to the country's successful growth. "Whenever I have been out of the country I have had an important team of businessmen with one remit in mind, which is to promote and spread the message of our capacity to sustain further important investment." Japan, South Korea, China, the UK, as well as Scandinavian countries have all been toured for an insight of the Tanzanian dream. The United States especially has been highly receptive of President Kikwete's entourage, following appearances at the NASDAQ in New York, Los Angeles, Boston, and Minnesota. "You can feel people respond to him," observes Bank of Tanzania Governor Daudi Ballali. "The general feeling of confidence and change is in the air."

It is not surprising that the international business community has been so receptive of Tanzania's inviting prospects. Combined with Kikwete's vision of the East African Community expanding into a full-fledged customs and monetary union by 2009, Tanzania has all the elements of becoming a commercial hub for the region in manufacturing, trade and other resources. "We are trying to be innovative," comments Kikwete. "Our location could be a source of income in itself, because we have Burundi, Rwanda, Uganda, Zambia, Malawi, and the Eastern Congo already using our territory for export and import trade. This is also a resource we should further develop in roads, airports, and rail." Connecting the port of Dar es Salaam to the African hinterland is the TAZARA railway, linking Tanzania with Zambia. Other cross country connections exist with Kenya and the Democratic Republic of Congo via a ferry link across Lake Victoria, but the network is in dire need of upgrading. Hence the decision was made to privatize the management of the railways, and current agreements exist with the Rail of India and Chinese investors interested in TAZARA.

Road infrastructure is another part of Tanzania's transport system that is receiving more attention, as 4 out of 26 regions are not properly connected by tarmac roads yet. Partly financed by the Roads Fund, supported by the Tanzania Revenues Authority, and partly backed by Japan, the African Development Bank and the US through its Millennium Challenge Corporation (MCC), Tanzania is working on upgrading sections of approximately 50,000 miles of still unpaved roads. As far as air traffic is concerned, Kikwete says the national carrier Air Tanzania is in a resuscitation process

from a new and highly dynamic management. Meanwhile Tanzania Civil Aviation Authority (TCAA) has said that the country boasts one of the safest airspaces on the continent as a result of investment made in air traffic control equipment and human resources.

The Serengeti potential

Tourism is also benefiting from the ongoing developments in infrastructure enhancements, a necessary step considering Tanzania is one of the fastest growing tourist destinations in the world. The tourism sector is enjoying a healthy 30 percent growth rate per annum, with the potential of beating other industries at foreign exchange earnings within just a few years. There are 15 game reserves and 12 national parks in Tanzania, including the world's largest national park, the Serengeti, and Africa's highest mountain, the Kilimanjaro. With the yearly increase in arrivals new accommodation facilities and hotels are needed with international standards to cover the rising demand.

The influx also provides excellent opportunities in the tour operators and agencies business, as well as in eco-tourism, theme parks, and gambling resorts. "We need to be strategic in our approach and focus on luxury hotels and boutique reserves in order to attract high-end and high value visitors," tells Kikwete, referring to the Serengeti potential. "We think up to 3,000 beds should be adequate. Kempinski is also building a hotel that apparently is going to be 'out of this world,' it must be like a bit of heaven, and we all want to see a bit of heaven while we are here." Kempinski marketing and sales senior vice president Jürg Siegenthaler recently commented that the move allows the group to capitalize on the luxury tourism market flowing into the continent. "We think Africa has a tremendous future as it becomes more attractive to individual high end travelers." With plenty of land along the east coast and untapped potentials at lake Victoria, aquaculture activities also form a formidable investment attraction.

The most radiant returns offered by Tanzania's investment portfolios have come from mining. Production capacity of the country's glistening gold reserves stands at 1 million ounces per year, mainly from three mines; Geita Gold Mine, a joint venture between South Africa's AngloGold and Ashanti of Ghana, Golden Pride Mine, owned by Australian firm Resolute, and Barrick's Bulyanhulu Gold Mine. Virtually every corner

of this richly earthed country holds some form of useful or precious mineral, from diamonds to industrial materials. The formulation of the Mineral Policy in 1997 and enactment of the new Mining Act of 1998 had remarkable impact on increase of investments in the sector. According to President Kikwete, mining in Tanzania has “reached a stage where it is following its natural course. We have huge deposits of coal which we will use ourselves for energy, but which can also be exported.”

Estimations indicate there is 1.200 million metric tons of coal in Tanzania which can provide energy for paper mills, cement factories, agriculture as well as household consumption. Since the country’s hydropower plants are dependent on water and therefore prone to the effects of drought, coal serves up a solid solution for energy generation. However, only three quarters of the country is connected to the national grid, mainly urban areas. It is intended that the rest of the country, including an estimated 8,200 villages, should be supplied with electricity to curb deforestation, as traditional households still use wood as their main biomass energy resource. Currently, per capita electricity consumption is growing at 11-13 percent per year; and hence the government is encouraging investment to expand generating capacity and distribution systems. A couple of innovative initiatives exist, such as generating energy from natural gas, but solar and wind energy has yet to make a substantial entry into the country.

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President Jakaya Kikwete

Networks that have shown much more and rapid growth across the African continent are telecommunications, and Tanzania has not fallen behind on this shooting star industry. No less than five cellular operators are active in the sector which is dominated by the Tanzania Telecommunication Company Ltd. (TTCL). Opportunities exist in modern technology provision and supporting services to industry players. The sector’s liberalization shortly followed that of the financial sector in 1991, when several key multinational

banking institutions established businesses in Tanzania, including CitiBank, Standard Chartered, Barclays, and ABSA. 1996 finally saw the opening of the insurance market, and both enjoy a healthy and transparent environment fostered by the Central Bank’s governance. It was a climate the government was intent on creating for all private sector players in Tanzania, a trend President Kikwete was determined to continue for the benefit of all citizens and consumers.

“We must be financially disciplined and follow the observance of the rule of law. We cannot be a country where the wish of the powerful is what is observed and becomes the overall rule. This is critical, the independence of the judiciary is something that we are strict on, the respect for human rights is well observed, and democracy is something we are proud of and want to make even more vibrant.”

Two more industries have presented themselves as potentially vital elements in the country’s determination to curb poverty levels, namely manufacturing and textiles. The former currently contributes around 7.4 percent of GDP, but the government has placed great emphasis on industrial diversification and encouraging the establishment of import substitution industries. Linked with the agriculture sector’s demand for fertilizers, manufacturing of phosphorus utilizing the abundant rock phosphates from Arusha offers a key niche. The chemical industry also poses as a possible mega market, with the manufacturing of pyrethrum extracts as a natural insecticide. Furthermore research in pharmaceuticals and development in medicinal preparations adds to already diverse manufacturing possibilities in Tanzania. Textile dominated the manufacturing industry in the seventies and eighties, but has long suffered serious constraints leading to under utilization of homegrown cotton produce. With an impetus of funds and expertise, Tanzania’s famous quality cotton production could once again become a major income earner both locally and in export markets.

Summarizing the country’s highlights, Central Bank Governor Ballali concludes that Tanzania is a “destination for investment where returns are good and opportunities abundant, not only in one sector, but in many.”

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